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TAGS: ETRD ECON EIND SENV PGOV WTRO FR
SUBJECT: FRENCH SERIOUS ABOUT CARBON TAX PROPOSAL

1.(SBU) Summary: In a November 13 speech before the GOF's Inter-ministerial Committee on Sustainable Development, Prime Minister de Villepin indicated that France would propose to its European partners a "carbon tax," to be imposed on industrial imports from countries that refuse to engage in the Kyoto process beginning in 2012. Francois Bordes, climate change advisor to France's environment minister, told Embassy on November 24 the carbon tax idea was not new, and had been raised previously in various EU fora. Bordes said French industry, notably cement, was feeling the pinch of foreign competition as a result of EU CO2 emissions quotas instituted in 2005. The carbon tax would level the playing field and encourage developing countries, as well as apparently developed countries not adhering to Kyoto-like framework, to engage on the climate change problem. End summary.

¶2. (U) In November 13 remarks to the GOF's Inter-ministerial Committee on Sustainable Development, PM Dominique de Villepin unveiled a series of measures to further France's "climate plan" in combating global warming. Noting that the 2007 budget provided for one billion euros in tax credits in support of energy efficiency efforts, Villepin underscored the central role of fiscal incentives and eco-taxes to France's strategy. He announced the creation of a "coal tax" of 1.19 euros per megawatt hour of energy produced, as well as new taxes on industrial pollution and waste, with receipts earmarked for efforts to combat global warming. Villepin also said France would work with its European partners to include the freight transport market in Europe's CO2 quota scheme.

¶3. (U) But Villepin's proposal on carbon tax garnered the most attention. The PM said that the climate change conference then underway in Nairobi had showed how "certain countries" would be tempted to refuse to engage in new efforts once the Kyoto protocol expired in 2012. Europe must refuse to countenance "this form of environmental dumping," Villepin said. France would study "together with our European partners" the principle of imposing a carbon tax on industrial imports from countries that refused to back the Kyoto process after 2012. The GOF would make concrete proposals to its EU partners in the first quarter of 2007.

Environment Ministry Says CO2 Quotas Hurting Industry
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¶4. (SBU) On November 24 Francois Bordes, climate advisor to Minister of Environment Olin, told us that Villepin's carbon tax proposal had not originated with the GOF. The idea had been considered by various EU institutions, including the High Level Group on Competitiveness, Energy and the Environment, for some time. French (and European) industry -- in particular the cement sector -- had lost market share to imports from China and Egypt as a result of the EU CO2 emissions trading system (ETS) instituted in 2005. Given the

need to level the playing field, Villepin had engaged "very diplomatically" by suggesting the tax be imposed only after 2012.

¶5. (SBU) The GOF would prepare a memo for European partners in early 2007, with France's Ministry of Finance, Economy and Industry taking the lead in an interagency process that would flesh out the idea. Bordes claimed Villepin's initial proposal had generated positive feedback from EU Environment Commissioner Stavros Dimas, among others, and said it was downright modest compared to Swiss President Moritz Leuenberger's call for a global CO2 tax.

¶6. (SBU) In response to probing, Bordes said a Cambridge University study had indicated that a carbon tax could be instituted in a WTO-consistent manner. (Comment: We assume he refers to Ismer and Neuhoff in Cambridge Working Papers in Economics CWPE 0409. End comment.) That view was shared by environmental economist Olivier Godard of the French National Center for Scientific Research (CNRS), who would play a role in designing the French proposal. In the course of conversation on U.S. efforts on climate change technology, and the various paths to lowering CO2 emissions, Bordes said the real challenges for the future -- and the target of the French initiative -- were China and other emerging economies.

¶7. (SBU) Comment: We find little statistical evidence to date that would back up Bordes' claims that cement firms have lost market share to imports as a result of ETS. However, many economists believe that cement -- among other energy-intensive industries -- may be particularly prone to import competition as firms factor the opportunity cost of carbon into production process decisions, and ultimately raise prices. Although Europe's ETS may not yet have proven itself, comments from Elysee advisors and others indicate the GOF is clearly serious about following through on the PM's proposal. We will follow this closely as the GOF fleshes out its views.

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